

Message Text

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ACTION STR-04

INFO OCT-01 STRE-00 IO-13 AF-08 ARA-10 EA-09 EUR-12 NEA-10

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TO SECSTATE WASHDC 1976

INFO USMISSION EC BRUSSELS

AMEMBASSY BERN

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 MTN GENEVA 8166

ACTION STR

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SUBJECT: AMBASSADOR WALKER'S STATEMENT IN TARIFFS GROUP MEETING,
OCTOBER 14, 1976

REF: MTN GENEVA 8118

FOLLOWING IS TEXT OF AMBASSADOR WALKER'S STATEMENT AT
THE TARIFFS GROUP MEETING OCTOBER 14. GRAPHS ARE BEING
TRANSMITTED BY AIRGRAM.

BEGIN TEXT: MY DELEGATION CONSIDERS IT AN ENCOURAGEING SIGN THAT THE
DELEGATIONS OF JAPAN AND SWITZERLAND HAVE TRANSLATED THEIR
IDEAS ON TARIFF LIBERALIZATION INTO DEFINITIVE TARIFF REDUC-
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TION PROPOSALS FOR THIS GROUP'S CONSIDERATION. WE RECOGNIZE

THAT A SIGNIFICANT AMOUNT OF EFFORT WENT INTO THE DEVELOPMENT OF THESE PROPOSALS . IN THANKING THESE DELEGATIONS FOR THEIR EFFORTS, I HOPE THAT ALL OF US CAN NOW REDEDICATE OURSELVES TO THE KIND OF HARD WORK IT TOOK TO DEVELOP THESE PROPOSALS SO WE CAN LOOK FORWARD TO BRINGING THESE NEGOTIATIONS TO A TIMELY AND SUCCESSFUL CONSLUSION.

MR. CHAIRMAN, IN YOUR SUMMING-UP OF OUR MARCH MEETING, YOU SAID THAT YOU SAW A CONSENSUS EMERGING ON SEVERAL POINTS. ONE OF THESE POINTS WAS THAT THE TARIFF FORMULA SHOULD CONTAIN AN IMPORTANT ELEMENT OF HARMONIZATION. BOTH THE JAPANESE AND SWISS PROPOSALS PRESENTED TODAY DO SEEK TO HARMONIZE TARIFF RATES. THEY DO THIS BY OBSERVING THE PRINCIPLE THAT THE HIGHER THE EXISTING DUTY, THE HIGHER SHOULD BE THE REDUCTION CALLED FOR THE THE FORMULA. AS I STATED IN MARCH AND AGAIN IN JULY, THE US PROPOSAL ALSO SEEKS HARMONIZATION. WHILE WE BELEIVE OUR PROPOSAL ACHIEVES SIGNIFICANT HARMONIZATION WITH LOWER ABSOLUTE TARIFF LEVELS THAN DOES EITHER OF THE PROPOSALS TABLED TODAY, WE NONETHELESS BELIEVE THE CHAIRMAN'S OBSERVATIONS ON THIS SUBJECT IN MARCH ARE BEING BORNE OUT BY OTHER DEVELOPMENTS IN THIS GROUP.

WE HAD ALSO HOPED, MR. CHAIRMAN, TO SEE SIMILAR EMPHASIS IN THE NEW PROPOSALS ON THE SECOND POINT YOU CITED IN YOUR SUMMING-UP. THAT IS, THE AIM OF ACHIENVING A SUBSTANTIAL ABSOLUTE REDUCTION IN THE LEVEL OF TARIFFS GLOBALLY. IN THIS RESPECT, WHAT HAS BEEN SUGGESTED REPRESENTS IN MANY WAYS AN IMPROVEMENT OVER PROPOSALS MADE EARLIER. HOWEVER, WE DO THINK THAT THE NEW PROPOSALS COULD BE SIGNIFICANTLY IMPROVED UPON, AND THAT IN DOING SO SUBSTANTIAL LIBERALIZATION WARRANTS MORE EMPHASIS.

IN A PRELIMINARY WAY, I WOULD LIKE TO BE MORE SPECIFIC. THE JAPANESE FORMULA, APPLIED TO ALL PRODUCTS, CALLS FOR AVERAGE REDUCTIONS OF MAJOR TRADING COUNTRY TARIFFS OF BETWEEN 34 AND 47 PERCENT. SINCE NEARLY ALL DELEGATIONS HAVE INDICATED DURING THIS NEGOTIATION THAT THEY WILL LIKELY NEED TO EXCEPT SOME ITEMS FROM FORMULA REDUCTIONS, THE LIBERALIZATION WHICH WOULD FINALLY BE ACHIEVED UNDER THE JAPANESE FORMULA WOULD BE A GOOD DEAL LESS THAN WHAT HISTORICAL UNCLASSIFIED

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PRECEDENT LEADS US TO CALL SUBSTANTIAL LIBERALIZATION. THESE FIGURES WHICH I HAVE CITED, REPRESENTING THE OVERALL REDUCTIONS ATTAINED UNDER THE JAPANESE FORMULA, WERE CALCULATED USING STATUTORY RATES AS THE BASE RATES ON UNBOUND ITEMS, SINCE THOSE ARE THE ONES USED IN THE GATT TAPES. OF COURSE, WE MUST RECOGNIZE THAT THESE STATUTORY RATES BEAR LITTLE RESEMBLENCE TO THE ACTUAL RATES WHICH HAVE BEEN APPLIED IN RECENT YEARS. WE WOULD EXPECT THAT THE FORMULA WOULD BE

APPLIED TO ACTUAL RATES.

THE DELEGATION OF SWITZERLAND OFFERED A PROPOSAL WHICH, APPLIED TO ALL PRODUCTS, PROVIDES FOR OVERALL REDUCTIONS ACCORDING TO OUR CALCULATIONS OF BETWEEN 43 AND 59 PERCENT AMONG THE MAJOR TRADING COUNTRIES. THESE NUMBERS INDICATE TO US THAT THE SWISS GOVERNMENT HAS SOUGHT IN ITS PROPOSAL TO MEET BOTH THE OBJECTIVES OF SUBSTANTIAL LIBERALIZATION AND THE HARMONIZATION OF RATES. BUT THE RESULT OF THEIR EFFORT IS A FORMULA WHICH STILL FALLS SHORT OF THE PROPOSAL OF THE UNITED STATES. ACCORDINGLY, WE HOPE FURTHER DISCUSSIONS AMONG THE PARTICIPANTS WILL LEAD TO A RECOGNITION THAT GREATER LIBERALIZATION IS BOTH FEASIBLE AND APPROPRIATE.

MR. CHAIRMAN, THE UNITED STATES VIEWS AS IMPORTANT THE LIBERALIZATION OF THE FEW REMAINING HIGH RATES IN DEVELOPED COUNTRY TARIFFS. THESE HIGH RATES ARE GIVEN PARTICULAR ATTENTION IN THE PROPOSALS TABLED TODAY. UNDER OUR OWN PROPOSAL WE ARE OFFERING TO CUT OUR OWN HIGH RATES BY THE MAXIMUM PERCENTAGE PERMITTED BY OUR TRADE ACT. BUT OUR WILLINGNESS TO MAKE THIS MAXIMUM EFFORT TO CUT HIGH RATES IS DEPENDENT ON AS GREAT AN EFFORT BEING MADE TO SUBSTANTIALLY REDUCE DUTIES WITHIN THE RANGE IN WHICH THE MAJORITY OF DEVELOPED COUNTRY TARIFFS IS FOUND. WE HOPE DELEGATIONS WILL GIVE GREATER ATTENTION TO THIS AREA DURING OUR DELIBERATIONS.

WE HAVE NOTED THAT MORE THAN 75 PERCENT OF ALL DUTIABLE ITEMS AMONG THE TARIFF STUDY COUNTRIES ARE AT RATES OF 15 PERCENT OR LESS. ON THE OTHER HAND, LESS THAN 10 PERCENT OF ALL RATES (AND EVEN LESS OF TRADE) ARE AT RATES OVER 30 PERCENT. THUS, WHILE WE NEED AND ARE PREPARED TO SUPPORT AN APPROACH WHICH WILL CALL FOR VERY SUBSTANTIAL REDUCTIONS OF HIGH DUTIES, WE ALSO MUST HAVE ONE WHICH SUBSTANTIALLY REDUCES

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RATES IN THE RANGE OF MODERATE TARIFFS.

WE HAVE PLOTTED OUT ALL FOUR PROPOSED TARIFF-CUTTING FORMULAS IN GRAPHS 1 AND 2 (ANNEXED) TO EXAMINE THEIR COMPARATIVE EFFECTS ON THE ENTIRE RANGE OF TARIFFS. GRAPH 1 SHOWS THE FINAL RATES (Z) AFTER APPLYING THE FOUR ALTERNATIVE TARIFF FORMULAS TO INITIAL TARIFF RATES (X). THE CANADIAN PREFERENCES EXPRESSED FOR A TARIFF-CUTTING FORMULA ARE NOT SHOWN ON THIS CHART BECAUSE THE CANADIAN PREFERENCES REPRESENT NOT A SINGLE MATHEMATICAL FORMULATION BUT RATHER A FAMILY OF PROPOSALS THAT DO NOT, AT THIS POINT, LEND THEMSELVES TO AN EXACT GEOGRAPHICAL REPRESENTATION. GRAPH 1 SHOWS THAT FINAL RATES ARE THE LOWEST UNDER THE US FORMULA PROPOSAL FOR INITIAL TARIFFS UP TO THE RATE OF 21 PERCENT AD VALOREM. ABOVE THE RATE OF 21 PERCENT, THE SWISS FORMULA ACHIEVES LOWER RATES

THAN THE US FORMULA BECAUSE IT EXCEEDS THE 60 PERCENT
MAXIMUM REDUCTION WHICH UNITED STATES CAN MAKE UNDER LAW.
NOT UNTIL RATES OF 30 AND 35 PERCENT ARE REACHED DO THE EC
AND JAPANESE PROPOSALS, RESPECTIVELY, ACHIEVE LOWER RATES THAN
THE US FORMULA. A CONCLUSION THAT ONE MUST DRAW FROM THIS
GRAPH IS THAT THE ALTERNATIVES TO THE US PROPOSAL DO NOT
ACHIEVE LOWER RATES EXCEPT AT RATES WHICH HAVE RELATIVELY
LITTLE SIGNIFICANCE WHEN COMPARED TO THE LARGE PROPORTION
OF TARIFFS THAT INHIBIT OR PREVENT TRADE AT LOWER LEVELS.

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ACTION STR-04

INFO OCT-01 STRE-00 IO-13 AF-08 ARA-10 EA-09 EUR-12 NEA-10

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GRAPH 2 IS PRESENTED FOR THOSE WHO LIKE TO LOOK AT THE
FORMULA IN TERMS OF PERCENTAGE REDUCTIONS (Y) AS RELATED TO
INITIAL TARIFF RATES. AS IN GRAPH 1, GRAPH 2 SHOWS THAT THE
US FORMULA IS MORE TARIFF-LIBERALIZING FOR THOSE RATES WHERE
AGAIN, THE ALTERNATIVE FORMULAS ARE MORE LIBERALIZING ONLY

FOR RATES ABOVE 21 PERCENT IN THE CASE OF THE SWISS FORMULA, 30 PERCENT IN THE CASE OF THE EC FORMULA, AND 35 PERCENT IN THE CASE OF THE JAPANESE FORMULA, AND BECAUSE THEY EXCEED THE MAXIMUM POSSIBLE CUT (60 PERCENT) THAT THE UNITED STATES CAN MAKE UNDER ITS TRADE ACT.

OUR INTEREST IN THIS RANGE OF RATES SHOULD BE SHARED BY THE DEVELOPING COUNTRIES. ONLY A FORMULA CALLING FOR SUBSTANTIAL LIBERALIZATION OF RATES IN THE RANGE BETWEEN UNCLASSIFIED

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5 AND 20 PERCENT IS GOING TO PROVIDE AN EFFECTIVE REMEDY TO THE PROBLEM OF TARIFF ESCALATION. FOR THIS REASON, THE US PROPOSAL, WHICH IS MUCH MORE LIBERALIZING IN THIS RANGE, WILL WE BELIEVE BETTER SERVE THE DEVELOPING COUNTRY INTEREST IN EXPANDING EXPORTS OF MANUFACTURED PRODUCTS.

IN PREVIOUS MEETINGS THE UNITED STATES DELEGATION HAS DISCUSSED THE PROBLEM OF TARIFF ESCALATION RAISED BY A NUMBER OF DEVELOPING COUNTRIES. WE HAVE PRESENTED SEVERAL CHARTS TO SHOW HOW DIFFERENCES IN TARIFFS AT VARIOUS STAGES OF PROCESSING ARE AFFECTED BY ALTERNATIVE PROPOSALS. WE MADE THE POINT THAT THE US APPROACH (BESIDES ACHIEVING DEEPER MTN CUTS THAT BY THEMSELVES SUBSTANTIALLY BENEFIT DEVELOPING COUNTRY EXPORTS) RESULTS IN A NARROWING OF ABSOLUTE DIFFERENCES IN TARIFFS AT DIFFERENT STAGES OF PROCESSING. THUS, THE US FORMULA OFFERS A SIGNIFICANT REDUCTION IN THE ESCALATION OF RATES FROM RAW MATERIALS TO SEMIFINISHED AND FINISHED MANUFACTURES.

GRAPH 3 (ANNEXED) IS AN UPDATE OF OUR EARLIER ANALYSIS, ENCOMPASSING THE TWO NEW PROPOSALS. THE CHART SHOWS A HYPOTHETICAL ESCALATED STRUCTURE OF TARIFFS THAT ONE MIGHT FIND IN SOME GIVEN PRODUCT GROUP. RAW MATERIALS (STAGE I) ARE ASSUMED TO BE DUTY FREE, AS THEY OFTEN ARE IN DEVELOPED COUNTRIES. SEMIFINISHED (STAGE II) PRODUCTS ARE ASSUMED TO BE 10 PERCENT, AND FINISHED MANUFACTURES (STAGE III) ARE ASSUMED TO HAVE A RATE OF 15 PERCENT.

APPLYING THE ALTERNATIVE FORMULAS, WE SEE THAT GREATEST REDUCTIONS ARE ACHIEVED UNDER THE US APPROACH. ALSO, THE ABSOLUTE DIFFERENCE BETWEEN THE ZERO DUTY ON RAW MATERIALS AND THE 10 PERCENT DUTY IS MINIMIZED UNDER THE US APPROACH. IN ADDITION, THE US FORMULA ACHIEVES A SUBSTANTIAL NARROWING OF THE DIFFERENCE BETWEEN THE STAGE II AND STAGE III RATES.

THIS CHART SERVES TO SHOW AGAIN THAT THE US FORMULA ACHIEVES A SIGNIFICANT REDUCTION IN THE DEGREE OF TARIFF ESCALATION.

MR. CHAIRMAN, WE REGRET THAT THE PROPOSAL OF THE
JAPANESE DELEGATION DOES NOT CALL FOR REDUCTIONS ON DUTIES
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5 PERCENT AND BELOW. THEIR FORMULA IMPLICITLY ESTABLISHES A
SO-CALLED TARIFF REDUCTION FLOOR OR THRESHOLD AT 5 PERCENT
AD VALOREM. THIS MEANS THAT APPROXIMATELY 17 PERCENT OF
DEVELOPED COUNTRY TARIFFS WOULD NOT BE SUBJECT TO FORMULA
APPLICATION. WE WOULD HAVE GREAT DIFFICULTY IN AGREEING TO
A FORMULA WHICH REFLECTS A JUDGEMENT THAT TARIFF LIBERALIZATION
IS INAPPROPRIATE OR UNNECESSARY ON SUCH A LARGE NUMBER OF
PRODUCTS.

MR. CHAIRMAN, ON THE QUESTION OF THE PRODUCT COVERAGE OF
THE FORMULAS PRESENTED YESTERDAY: WE STATED IN MRACH THAT OUR
PROPOSAL IS MEANT TO BE APPLIED TO ALL TARIFFS, BTN CHAPTERS
1-99. THE TOKYO DECLARATION STATES THAT QE SHOULD ADOPT A
FORMULA OF AS BORAD AN APPLICATION AS POSSIBLE, AND WE DON'T
FIND REASON TO RETREAT FROM THAT AGRREED OBJECTIVE. WE ARE
NOT SATISFIED , THEREFORE, WITH PROPOSALS WHICH ARE MEANT TO
BE APPLIED TO AN ARMBTRARILY-DEFINED TAND LIMITED GROUP OF
PRODUCTS. WE ARE PLEASED TO SEE THAT THE DELEGATIONS
ADVANCING THESE PROPOSALS YESTERDAY DO NOT CONSIDER THEM
WHOLLY IMAPPLICABLE T AGRICULTURE PRODUCCTS AND HOPE THAT THE
PROCESS OF MOVING TOWARD AN ACROSS-THE -BOARD TARIFF CUTTING
FORMULA IN THIS GROUP WILL CONTINUE.

I WANT ALSO TO REAFFIRM THE IMPORTANCE WE ATTACH TO
LIMITING EXCEPTIONS.NO DISCUSSION OF A TARIFF -CUTTING
PLAN CAN FAIL TO TAKE INTO ACCOUNT THE IMPACT OF POTINTIAL
EXCEPTIONS AND IT IS FOR THIS REASON THAT MY DELEGATION RE-
EMPHASIZES, AT THIS POINT IN OUR DELIBERATIONS, OUR EXPECTATION
THATALLPARTICIPANTSWILL EXERCISE MAXIMUM RESTRAINT TO
MINIMIZE EXCEPTIONS.

I SHOULD ALSO NOTE, MR. CHAIRMAN, YOUR SUMMING-UP OF
THE MARCH 1976 MEEETING NOTED AN EMERGING CONSENSUS THAT
NEGOTIATIONS ON TARIFFS CANNOT BE CONSIDERED IN ISOLATION
BUT MUST BE CONSIDERED, INTER ALIA, IN THE CONTEXT OF NEGOTIA-
TIONS ON NONTARIFF MEASURES. THIS CONTINUES TO REFLECT THE
UNTTED STATES POSITION.

WEH HAVE NOW HEARD SPECIFIC PROPOSALS FROM FIVE DELEGATIONS:
THE EUROPEAN COMMUNITY, CANADA, JAPAN, SWITZERLAND AND THE
UNITED STATES. FROM WHAT HAS BEEN STATED SO FAR AT THIS
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MEETING AND THE PREVIOUS TWO MEETINGS OF THIS GROUP, WE WOULD CONCLUDE THAT TAKEN TOGETHER THESE PROPOSALS GENERALLY REFLECT A BROAD SPECTRUM OF OPINION ON THE ELEMENTS WHICH COUNTRIES WISH TO SEE INCORPORATED INTO AN ACROSS-THE-BOARD TARIFF REDUCTION FORMULA. HAVING NOW ATTAINED THIS FULLER EXPRESSION OF DEVELOPED COUNTRY PREFERENCES, WE THINK IT IS APPROPRIATE FOR THIS GROUP TO TAKE CONCRETE STEPS TOWARD THE ADOPTION OF A COMPREHENSIVE TARIFF-NEGOTIATING FORMULA. THE TRADE NEGOTIATIONS COMMITTEE DIRECTED THIS GROUP TO MAKE SOLID AND SUBSTANTIAL NEGOTIATING PROGRESS IN 1976 TOWARD AGREEMENT ON THE MAJOR ELEMENTS OF A TARIFF-NEGOTIATING PLAN. IN THE MONTHS REMAINING OF 1976, WE SHOULD DO OUR UTMOST TO MEET THE EXPECTATIONS OF THE TRADE NEGOTIATIONS COMMITTEE. MY DELEGATION STANDS READY TO MEET THIS RESPONSIBILITY.
END TEXT.

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